



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

Mr L Mapholoba
The Accounting Officer
UMzimkhulu Municipality
P.O. Box 53
UMzimkhulu
3297

01 December 2009

Reference: 18194REG0809

Dear Sir

Report of the Auditor-General on the financial statements and performance information of uMzimkhulu Municipality for the year ended 30 June 2009

1. The above-mentioned report of the Auditor-General is submitted herewith in terms of section 21(1) of the Public Audit Act, 2004 (Act No. 25 of 2004) read in conjunction with section 188 of the Constitution of the Republic of South Africa, 1996 and section 121(3) of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA)
2. The audit report is issued as a final draft pending our receipt of all other documents that will be included in the annual report that will contain the audited financial statements is received.
3. Once these documents are received we will read them to establish if there are any inconsistencies with the audited financial statements. You will then be requested to amend this other information or the financial statements in respect of any inconsistencies. Once this process has been satisfactorily completed we will issue the final signed audit report.
4. In terms of section [121(3) (municipality); 121(4) (municipal entity); of the MFMA] you are required to include the audit report in the [type of entity]'s annual report to be tabled.
5. Until the annual report is tabled as required by section 127(2) of the MFMA the audit report is not a public document and should therefore be treated as confidential.
6. Prior to printing or copying the annual report which will include the audit report you are required to do the following:
 - Submit the final printer's proof of the annual report to the relevant senior manager of the Auditor-General of South Africa for verification of the audit-

related references in the audit report and for confirmation that the financial statements and other information are those documents that have been read and audited. Special care should be taken with the page references in your report, since an incorrect reference could have audit implications.

- The signature *Auditor-General* (which will be issued when the requirements of paragraph 3 above have been met) in the handwriting of the auditor authorised to sign the audit report at the end of the hard copy of the audit report should be scanned in when preparing to print the report. This signature, as well as the place and date of signing and the Auditor-General of South Africa's logo, should appear at the end of the report, as in the hard copy that is provided to you. The official logo will be made available to you in electronic format.
7. Please notify the undersigned person well in advance of the date on which the annual report containing this audit report, will be tabled.
 8. Your cooperation to ensure that all these requirements are met would be much appreciated.

Kindly acknowledge receipt of this letter.

Yours sincerely

Indhren Perumaul

Operational Leader: KwaZulu Natal

Enquiries:	Sandile Mnguni
Telephone:	(033) 2647400
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Email:	sandilem@agsa.co.za

**REPORT OF THE AUDITOR-GENERAL TO THE KWAZULU-NATAL PROVINCIAL
LEGISLATURE AND THE COUNCIL ON THE FINANCIAL STATEMENTS AND
PERFORMANCE INFORMATION OF UMZIMKULU MUNICIPALITY FOR THE YEAR
ENDED 30 JUNE 2009**

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of the uMzimkulu Municipality which comprise the statement of financial position as at 30 June 2009, and statement of financial performance, statement of changes in net assets and the cash flow statements for the year then ended, a summary of significant accounting policies and other explanatory notes as set out on pages 78 to 113.

The accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the Standards of Generally Recognised Accounting Practice (Standards of GRAP) and in the manner required by the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA) and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Auditor-General's responsibility

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 read with section 4 of the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA) and section 126(3) of the MFMA, my responsibility is to express an opinion on these financial statements based on my audit
4. I conducted my audit in accordance with the International Standards on Auditing read with *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008*. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

6. Paragraph 11 *et seq.* of the Standard of Generally Recognised Accounting Practice, GRAP 1 *Presentation of Financial Statements* requires that financial reporting by entities shall provide information on whether resources were obtained and used in accordance with the legally adopted budget. As the budget reporting standard is not effective for this financial year, I have determined that my audit of any disclosures made by the uMzimkulu Municipality in this respect will be limited to reporting on non-compliance with this disclosure requirement.
7. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

8. In my opinion the financial statements present fairly, in all material respects, the financial position of the uMzimkulu Municipality as at 30 June 2009 and its financial performance and its cash flows for the year then ended, in accordance with Standards of GRAP and in the manner required by the MFMA.

Other matters

Without qualifying my opinion, I draw attention to the following matters that relates to my responsibilities in the audit of the financial statements:

Unaudited supplementary schedules

9. UMzimkulu Municipality provided supplementary information in the financial statements on whether resources were obtained and used in accordance with the legally adopted budget, in accordance with GRAP 1, *Presentation of Financial Statements*. The supplementary information in appendix E(1) to E(2) does not form part of the financial statements and is presented as additional information. I have not audited these schedules and accordingly I do not express an opinion thereon.
10. The supplementary information in the appendix A to D does not form part of the financial statements and is presented as additional information. I have not audited these schedules and accordingly I do not express an opinion thereon

Governance framework

11. The governance principles that impact the auditor's opinion on the financial statements are related to the responsibilities and practices exercised by the accounting officer and executive management and are reflected in the internal control deficiencies and key governance requirements addressed below:

Governance responsibilities

12. The MFMA tasks the accounting officer with a number of responsibilities concerning financial and risk management and internal control. Fundamental to achieving this is the implementation of key governance responsibilities, which I have assessed as follows:

No.	Matter	Y	N
Clear trail of supporting documentation that is easily available and provided in a timely manner			
1.	No significant difficulties were experienced during the audit concerning delays or the availability of requested information.	<input type="checkbox"/>	
Quality of financial statements and related management information			
2.	The financial statements were not subject to any material amendments resulting from the audit.		<input type="checkbox"/>
3.	The annual report was submitted for consideration prior to the tabling of the auditor's report.	<input type="checkbox"/>	
Timeliness of financial statements and management information			
4.	The annual financial statements were submitted for auditing as per the legislated deadlines as set out in of section 126 of the MFMA.	<input type="checkbox"/>	
Availability of key officials during audit			
5.	Key officials were available throughout the audit process.	<input type="checkbox"/>	
Development and compliance with risk management, effective internal control and governance practices			
6.	Audit committee		
	<ul style="list-style-type: none"> The uMzimkulu Municipality had an audit committee in operation throughout the financial year. 	<input type="checkbox"/>	
	<ul style="list-style-type: none"> The audit committee operates in accordance with approved, written terms of reference. 	<input type="checkbox"/>	
	<ul style="list-style-type: none"> The audit committee substantially fulfilled its responsibilities for the year, as set out in section 166(2) of the MFMA. 	<input type="checkbox"/>	
7.	Internal audit		
	<ul style="list-style-type: none"> The uMzimkulu Municipality had an internal audit function in operation throughout the financial year. 	<input type="checkbox"/>	
	<ul style="list-style-type: none"> The internal audit function operates in terms of an approved internal audit plan. 	<input type="checkbox"/>	
	<ul style="list-style-type: none"> The internal audit function substantially fulfilled its responsibilities for the year, as set out in section 165(2) of the MFMA. 	<input type="checkbox"/>	
8.	There are no significant deficiencies in the design and implementation of internal control in respect of financial and risk management.	<input type="checkbox"/>	
9.	There are no significant deficiencies in the design and implementation of internal control in respect of compliance with applicable laws and regulations.	<input type="checkbox"/>	
10.	The information systems were appropriate to facilitate the preparation of the financial statements.	<input type="checkbox"/>	
11.	A risk assessment was conducted on a regular basis and a risk management	<input type="checkbox"/>	

No.	Matter	Y	N
	strategy, which includes a fraud prevention plan, is documented and used, as set out in section 62(1)(c)(i) of the MFMA.		
12.	Delegations of responsibility are in place, as set out in section 106 of the MFMA.	<input type="checkbox"/>	
Follow-up of audit findings			
13.	The prior year audit findings have been substantially addressed.	<input type="checkbox"/>	
14.	SCOPA/Oversight resolutions have been substantially implemented.	<input type="checkbox"/>	
Issues relating to the reporting of performance information			
15.	The information systems were appropriate to facilitate the preparation of a performance report that is accurate and complete.	<input type="checkbox"/>	
16.	Adequate control processes and procedures are designed and implemented to ensure the accuracy and completeness of reported performance information.	<input type="checkbox"/>	
17.	A strategic plan was prepared and approved for the financial year under review for purposes of monitoring the performance in relation to the budget and delivery by the UMzimkulu Municipality against its mandate, predetermined objectives, outputs, indicators and targets, as required by section 68 of the MFMA.	<input type="checkbox"/>	
18.	There is a functioning performance management system and performance bonuses are only paid after proper assessment and approval by those charged with governance.	<input type="checkbox"/>	

13. Although the financial statements were submitted timely and key officials were available during the audit, material adjustments were made to the financial statements as result of error noted during the audit. These adjustments were as a result of lack of ongoing monitoring and supervision over financial reporting.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Report on performance information

14. I have reviewed the performance information as set out on pages 38 to 63.

The accounting officer's responsibility for the performance information

15. In terms of section 121(3)(c) of the MFMA the annual report of a municipality must include the annual performance report of the municipality, prepared by the municipality in terms of section 46 of the Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA).

The Auditor-General's responsibility

16. I conducted my engagement in accordance with section 13 of the PAA read with *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008* and section 45 of the MSA .
17. In terms of the foregoing my engagement included performing procedures of a review nature to obtain sufficient appropriate evidence about the performance information and related systems, processes and procedures. The procedures selected depend on the auditor's judgement.
18. I believe that the evidence I have obtained is sufficient and appropriate to report that no significant findings have been identified as a result of my review.

APPRECIATION

19. The assistance rendered by the staff of the uMzimkulu Municipality during the audit is sincerely appreciated.

Auditor-General

Pietermaritzburg

30 November 2009



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

Mr L Mapholoba
The Accounting Officer
Umzimkhulu Municipality
P O Box 53
Umzimkhulu
3297

24 November 2009

Reference: 18194REG0809

Dear Sir

**MANAGEMENT REPORT ON THE REGULARITY AUDIT AND THE AUDIT OF PERFORMANCE
INFORMATION OF UMZIMKHULU MUNICIPALITY FOR THE YEAR ENDED 30 JUNE 2009**

INTRODUCTION

1. This management report is provided to the accounting officer of the uMzimkulu Municipality in connection with our audit of the financial statements and the review of the performance information for the year ended 30 June 2009.
2. The report contains the following main subsections:
 - The Auditor-General's responsibilities.
 - The accounting officer's responsibilities.
 - Significant findings from our audit of the financial statements.
 - Financial matters
 - Governance matters
 - Significant findings from our review of the performance information.
 - Ratings of the audit findings.
 - Summary of detailed audit findings.
3. Annexures A and B contain information on the detailed audit findings. The detailed findings were communicated during the course of the audit and include management's responses thereto.

THE AUDITOR-GENERAL'S RESPONSIBILITIES

4. Our responsibility is to express an opinion on the financial statements and to report on findings related to our review of performance information. Our engagement letter sets out our responsibilities in detail. These include the following:
 - Planning and performing the audit to obtain reasonable assurance about whether the financial statements are free from material misstatements, whether caused by fraud or error.

- Performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the financial statements.
 - Considering internal controls relevant to the entity's preparation and fair presentation of the financial statements.
 - Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management.
 - Evaluating the overall presentation of the financial statements.
 - Expressing an opinion on the financial statements based on the audit in accordance with the International Standards on Auditing (ISAs).
 - Evaluating non-compliance with applicable legislation relating to financial matters, financial management and other related matters.
 - Evaluating the appropriateness of controls, systems and processes to ensure the accuracy and completeness of reported performance information.
 - Reading other information in documents containing the audited financial statements.
5. Because of the test nature and other inherent limitations of an audit, we do not guarantee the completeness and accuracy of the financial statements or performance information, or compliance with all applicable legislation.
6. Having formed an opinion on the financial statements we may draw the user's attention, when in our opinion it is necessary to do so, by way of additional communication in the auditor's report to:
- a matter, although appropriately presented or disclosed in the financial statements, that is of such importance that it is fundamental to user's understanding of the financial statements; or
 - as appropriate, any other matter that is relevant to the user's understanding of the auditor's responsibilities or the auditor's report.

These items are normally included under the headings 'emphasis of matter' and 'other matters' respectively in the auditor's report and include an indication that they do not affect the auditor's opinion.

THE ACCOUNTING OFFICER'S RESPONSIBILITIES

7. The accounting officer's responsibilities are set out in detail in the engagement letter. These include the following:
- The preparation and fair presentation of the financial statements in accordance with the Standards of Generally Recognised Accounting Practice.
 - Designing, implementing and maintaining internal controls relevant to the preparation of the financial statements.
 - Selecting and applying appropriate accounting policies, and making accounting estimates that are appropriate in the circumstances.
 - Disclosing known instances of non-compliance or suspected non-compliance with laws and regulations, of which the effects should be considered when preparing financial statements.
 - Monitoring and reporting on performance against predetermined objectives.
 - Providing access to all information that is relevant to the preparation of the financial statements and performance information, such as records, documents and other matters.
 - Disclosing all matters concerning any risk, allegation or instances of fraud.
 - Accounting for and disclosing related-party relationships and transactions.

SIGNIFICANT FINDINGS FROM OUR AUDIT OF THE FINANCIAL STATEMENTS

FINANCIAL MATTERS

Material misstatement corrected during the audit

8. The following represents the material misstatements arising from a difference between the amount, classification or presentation of a reported financial statement item and the amount, classification or presentation that is required for the item to be in accordance with the applicable financial reporting framework. These misstatements were identified during the audit and were corrected by management. These misstatements were not prevented or detected by the uMzimkulu Municipality's system of internal control. We urge management to implement improved controls over the matters reflected as the root cause for the misstatements.

Financial statement line item		Dr	Cr	Root cause(s) (as per table below)
		R	R	
Cash and bank		2 326 629		IC3 and M1
Credit on transit (account payable)			2 326 629	
Operating expense		345,124.55		
VAT input		44,639.45		
Accrued expense			389 764	
Cash and bank		188 801.21		
Income received in advance			188 801.21	

The following represents the material misstatements that arose from a difference between the disclosures in the financial statements and the **disclosures** required by the financial reporting framework. These misstatements were identified during the audit and were corrected by management. These misstatements were not prevented or detected by the uMzimkulu Municipality's system of internal control. We urge management to implement improved controls over the matters reflected as the root cause for the misstatements.

Financial statement line item	Disclosure	Amount R	Root cause(s) (as per table below)
Property, plant and equipment	Investment property	4 014 160,00	M1
Property, plant and equipment	Investment property	915 766,56	M1
Property, plant and equipment	intangible asset	420 720,81	M1

Legend	
CE = Control environment (ISA 315.14(b) and A69-A75)	
The organisational structure does not address areas of responsibility and lines of reporting to support effective control over financial reporting.	1
Management and staff are not assigned appropriate levels of authority and responsibility to facilitate control over financial reporting.	2
Human resource policies do not facilitate effective recruitment and training, disciplining and supervision of personnel.	3
Integrity and ethical values have not been developed and are not understood to set the standard for financial reporting.	4
The accounting officer does not exercise oversight responsibility over financial reporting and internal control.	5
Management's philosophy and operating style do not promote effective control over financial reporting.	6
The entity does not have individuals competent in financial reporting and related matters.	7
RA = Risk assessment	
Management has not specified financial reporting objectives to enable the identification of risks to reliable financial reporting.	1
The entity does not identify risks to the achievement of financial reporting objectives.	2
The entity does not analyse the likelihood and impact of the risks identified.	3
The entity does not determine a risk strategy/action plan to manage identified risks.	4
The potential for material misstatement due to fraud is not considered.	5
CA = Control activities	
There is inadequate segregation of duties to prevent fraudulent data and asset misappropriation.	1
General information technology controls have not been designed to maintain the integrity of the information system and security of the data.	2
Manual or automated controls are not designed to ensure that the transactions occurred, are authorised, and are completely and accurately processed.	3
Actions are not taken to address risks to the achievement of financial reporting objectives.	4
Control activities are not selected and developed to mitigate risks over financial reporting.	5
Policies and procedures related to financial reporting are not established and communicated.	6
Realistic targets are not set for financial performance measures, which are in turn not linked to an effective reward system.	7
IC = Information and communication	
Pertinent information is not identified and captured in a form and time frame to support financial reporting.	1
Information required to implement internal control is not available to personnel to enable internal control responsibilities.	2
Communications do not enable and support the understanding and execution of internal control processes and responsibilities by personnel.	3
M = Monitoring	
Ongoing monitoring and supervision are not undertaken to enable an assessment of the effectiveness of internal control over financial reporting.	1
Reviews by internal audit, the audit committee or self-assessment are not evident.	2
Internal control deficiencies are not identified and communicated in a timely manner to allow for corrective action to be taken.	3

Financial sustainability/Going concern

9. UMzimkulu Municipality had no material uncertainty that may cast significant doubt on the municipality's ability to continue as a going concern.

Qualitative aspects of accounting practices

10. UMzimkulu Municipality has adopted GRAP 17 transitional provision.

Material losses/impairments

11. UMzimkulu Municipality did not suffer any significant losses during the year under review.

Unauthorised/fruitless and wasteful/irregular expenditure

12. No material findings were identified during our audit.

Budgetary control

13. No material findings were identified during our audit.

Accounting discipline

14. No material findings were identified during our audit.

Financial indicators/ratios

15. The following is a key financial ratio at the municipality. The indicator is not in line with the expected norms. We recommend that management implement stringent controls to normalise the ratio to ensure the continued effective operation of the municipality.

Current ratio – (Current assets/Current liabilities) = 1.09:1

Debt collection period – Consumer debtors/revenue x 365 = 170 days

Significant uncertainties

16. No material findings were identified during our audit.

Financial reporting systems

17. No material findings were identified during our audit.

Revision of the previously issued financial statements

18. As disclosed in note 27 to the financial statements, the previously issued financial statements were restated due to depreciation amount not recorded in prior year financial statement.

Accounting reforms

19. UMzimkulu Municipality has taken advantage of transitional provision in term of Standard GRAP. The plan is in place to ensure the transition is a success

GOVERNANCE MATTERS**Material inconsistencies in other information included in the annual report**

20. I have not obtained the other information included in the annual report and have not been able to identify any material inconsistencies with the financial statements.

Internal audit

21. UMzimkulu Municipality has an internal audit division and has complied with section 165(2) of the MFMA.

Audit committee

22. The audit committee functioned throughout the year and fulfilled its responsibility in terms of 166(2) of the MFMA.

Management of risk

23. UMzimkulu Municipality undertook a risk assessment to assess any risks of fraud and has consequently developed a fraud prevention plan.

Prior year observations and recommendations addressed

24. The prior year observation and recommendation were adequately addressed.

Unavailability of key personnel

25. All key personnel were available during the audit. This is evidenced by the fact that we were able to get our information requested on time.

Adequacy and competence of financial reporting personnel

26. There is a need to provide regular training to personnel in the finance department to enable them to maintain the new accounting framework and legislation, e.g. VAT act.

Unavailability of expected information

27. UMzimkulu Municipality prepared an audit file and therefore all the expected information was available.

Late submission of financial statements

28. Not applicable as the financial statements were received on 31 August 2009.

Related parties

29. No material findings were identified during our audit.

Performance rewards

30. No material findings were identified during our audit.

Non-compliance with applicable legislation

31. Non-compliance with the following legislation was noted:

- a. Late submission of the report to the National Treasury (MFMA)
- b. Incorrect amount of VAT input (VAT Act)

SCOPA/Oversight resolutions

32. There were no SCOPA/oversight resolutions applicable to the municipality

Key governance responsibilities

33. The MFMA tasks the accounting officer with a number of responsibilities concerning financial and risk management and internal control. Many of these have been addressed in detail above. The table below reflects how certain of the financial and governance matters as well as other

matters included under the reporting on performance information below, will be reported in the auditor's report.

No.	Matter	Y	N
Clear trail of supporting documentation that is easily available and provided in a timely manner			
1.	No significant difficulties were experienced during the audit concerning delays or the availability of requested information.	<input type="checkbox"/>	
Quality of financial statements and related management information			
2.	The financial statements were not subject to any material amendments resulting from the audit.		<input type="checkbox"/>
3.	The annual report was submitted for consideration prior to the tabling of the auditor's report.		<input type="checkbox"/>
Timeliness of financial statements and management information			
4.	The annual financial statements were submitted for auditing as per the legislated deadlines in section 126 of the MFMA.	<input type="checkbox"/>	
Availability of key officials during audit			
5.	Key officials were available throughout the audit process.	<input type="checkbox"/>	
Development and compliance with risk management, effective internal control and governance practices			
6.	Audit committee		
	<ul style="list-style-type: none"> The uMzimkulu Municipality had an audit committee in operation throughout the financial year. 	<input type="checkbox"/>	
	<ul style="list-style-type: none"> The audit committee operates in accordance with approved, written terms of reference. 	<input type="checkbox"/>	
	<ul style="list-style-type: none"> The audit committee substantially fulfilled its responsibilities for the year, as set out in section 166(2) of the MFMA. 	<input type="checkbox"/>	
7.	Internal audit		
	<ul style="list-style-type: none"> The uMzimkulu Municipality had an internal audit function in operation throughout the financial year. 	<input type="checkbox"/>	
	<ul style="list-style-type: none"> The internal audit function operates in terms of an approved internal audit plan. 	<input type="checkbox"/>	
	<ul style="list-style-type: none"> The internal audit function substantially fulfilled its responsibilities for the year, as set out in section 165(2) of the MFMA. 	<input type="checkbox"/>	
8.	There are no significant deficiencies in the design and implementation of internal control in respect of financial and risk management.	<input type="checkbox"/>	
9.	There are no significant deficiencies in the design and implementation of internal control in respect of compliance with applicable laws and regulations.	<input type="checkbox"/>	
10.	The information systems were appropriate to facilitate the preparation of the financial statements.	<input type="checkbox"/>	
11.	A risk assessment was conducted on a regular basis and a risk management strategy, which includes a fraud prevention plan, is documented and used as set out in section 62(1)(c)(i)/95(c)(i) of the MFMA.	<input type="checkbox"/>	
12.	Delegations of responsibility are in place, as set out in section 79/106 of the MFMA.	<input type="checkbox"/>	
Follow-up of audit findings			
13.	The prior year audit findings have been substantially addressed.	<input type="checkbox"/>	
14.	SCOPA / oversight resolutions have been substantially implemented.	<input type="checkbox"/>	

No.	Matter	Y	N
Issues relating to the reporting of performance information			
15.	The information systems were appropriate to facilitate the preparation of a performance report that is accurate and complete.	<input type="checkbox"/>	
16.	Adequate control processes and procedures are designed and implemented to ensure the accuracy and completeness of reported performance information.	<input type="checkbox"/>	
17.	A strategic plan was prepared and approved for the financial year under review for purposes of monitoring the performance in relation to the budget and delivery by the uMzimkulu Municipality against its mandate, predetermined objectives, outputs, indicators and targets section 68/87 of the MFMA.	<input type="checkbox"/>	
18.	There is a functioning performance management system and performance bonuses are only paid after proper assessment and approval by those charged with governance.	<input type="checkbox"/>	

Achievement of good practice indicators

34. The following good practices are the drivers of audit results. We have indicated our assessment of the uMzimkulu Municipality's achievement of these good practices, based on the matters included elsewhere in this report.

	Good practice	Y	N
1	Clear trail of supporting documentation that is easily available and provided timeously.	<input type="checkbox"/>	
2	Quality of financial statements and related management information.		<input type="checkbox"/>
3	Timeliness of financial statements and management information.	<input type="checkbox"/>	
4	Availability of key officials during audits.	<input type="checkbox"/>	
5	Development and compliance with risk management and good internal control and governance practices.	<input type="checkbox"/>	
6	Leadership/supervision and monitoring.	<input type="checkbox"/>	

Conclusion on the governance framework

35. Although the financial statements were submitted timeously and municipality has substantially implemented its key governance responsibilities, material adjustments were made to the financial statements. These adjustments were as a result of the errors that were not detected and/or prevented by the internal controls and weaknesses in respect of ongoing monitoring and supervision over financial reporting.

RATINGS OF DETAILED AUDIT FINDINGS

36. For the purposes of this report, the detailed audit findings included in annexures A and B have been classified as follows:

- Other important matters – deficiencies that could adversely affect the entity's ability to initiate record, process and report financial data consistent with the assertions of management on the financial statements and in accordance with the applicable basis of accounting. Unacceptable risk that errors and irregularities may occur that will not be prevented or detected by the internal controls in good time.

These matters should be addressed within the next 12 months.

- Administrative matters – non-material non-compliance with applicable legislation, or misstatements in the financial statements that are unlikely to affect the decisions of a user and do not affect the financial statements as a whole, or opportunities for improvement, or other matters of governance interest.

These matters should be addressed at the discretion of the entity.

37. Failure to address matters reported in a particular category may result in the matter being rated as more significant in the next financial year.

APPRECIATION

38. We would like to express our appreciation for the courtesy extended and assistance rendered by the staff of the uMzimbhulu Municipality during the audit.

Yours faithfully

Indhren Perumaul

Operational Leader: KwaZulu-Natal

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Distribution:

CFO

Audit committee chair

Head of internal audit

SUMMARY OF AUDIT FINDINGS

Page. no.	Finding	Classification	Control Component	Impact on audit report				Other important matters	Administrative matters	Reported in previous years	In which years was it reported		
				Qualification	Emphasis of matter	Other matters	Other reporting responsibilities				2007-08	2006-07	2005-06
CASH AND CASH EQUIVALENTS													
16	Long-outstanding reconciling items	Control	Monitoring of controls						✓	No			
GRANTS/DEFERRED INCOME													
11	Unspent grants reconciliation to investment accounts	Financial	Control environment					✓		No			
OTHER													
13	Late submission of report to the National Treasury	Compliance (Non-AFS)	Control activities										
12	Inadequate control over posting of journal entries	Control	Monitoring of controls					✓		No			
PAYABLES/ACCRUALS													
13	Unauthorised payment made during the year under review	Financial	Monitoring of controls					✓		No			
14	Inadequate reconciliation of the creditors sub-ledger to general ledger	Financial	Monitoring of controls					✓		No			
TAXES													
15	Incorrect amount claimed as input VAT	Financial	Control activities					✓		No			

ANNEXURE B: OTHER IMPORTANT MATTERS.

GRANTS/DEFERRED INCOME

1. Unspent grants reconciliation to investment accounts

Audit finding

In terms of section 63(2) MFMA the accounting officer must take all reasonable steps to ensure that the municipality has and maintains a management, accounting and information system that accounts for the assets and liabilities of the municipality. However, during the testing of the investment and unspent conditional grant, the individual investment as per the bank confirmation did not agree with the individual unspent condition grant account.

Root cause

Ongoing monitoring and supervision are not undertaken to enable an assessment of the effectiveness of internal control over financial reporting.

Risk

Amount invested for unspent conditional grants may not be utilised in terms of the condition of the grant.

Recommendation

The management should put control in place to ensure the reconciliation between investment and unspent conditional grants are prepared and reviewed on the monthly basis

Management response

We are in agreement with the finding but the differences are as a result of historical capturing differences of information in prior years. The investments balances should be viewed as cash-backing of the total unspent grants. In the current financial such indifferences will be resolved.

Name: Z. Cezu

Position: Chief Financial Officer

Date: 02 November 2009

Auditor's response

Management response accepted and the matter will be followed up next year.

OTHER

2. Inadequate control over processing the journal entries

In terms of 62(1)(c)(i) of MFMA the accounting officer of the municipality is responsible for managing the financial administration of the municipality and must for this purpose take all reasonable steps to ensure that:

the municipality has and maintains an effective and efficient and transparent system

- of financial and risk management and internal control and

- of internal audit operating in accordance any prescribed norms and standard.

A review of the control environment over journals entries revealed the following weaknesses:

- No documented approved policy and procedure manual for journals existed.
- Journals were not appropriately authorised.

Root cause

Policies relating to reliable financial reporting are not established and communicated throughout the municipality.

Risk

- The absence of supporting documentation compromises the validity of the underlying journal transactions.
- The risk of fraud, errors, omissions and misstatements are increased due to the weak control environment over general journal management.

Recommendation

All journal transactions should be independently and appropriately approved by senior personnel and exception reports should be extracted for unusual journal activity, which should be independently reviewed. In addition, the municipality should establish a policy regarding the processing, authorisation and recording of journals.

Management response

Journal entries are authorized before being processed, however we will improve on ensuring that the same authorization is performed in the system by the supervisor.

Name Z Cezu:

Position: Chief Financial Officer

Date: 30 October 2009

Auditor's response

Management response accepted and the matter will be followed up next year.

3. Late submission of report to the National Treasury

Audit finding

In terms of MFMA Circular No. 34 the municipality is required to submit to the National Treasury within 15 days of the end of the month a separate report for each contract awarded (and signed) above R100 000. However, it was noted that the report to the National Treasury relating to the development planning project contract with Siyazama Consulting was submitted 25 days after the signing of the contract.

- Contract signing date: 10 June 2008

- Submission date: 15 July 2008

- Contract price: R 540 000

Root cause

Ongoing monitoring and supervision are not undertaken to enable an assessment of the effectiveness of internal control over financial reporting.

Risk

Non-compliance with MFMA circular No.34

Recommendation

Management should take the necessary steps to ensure that submission of the report to the National Treasury is done on time. Furthermore, management should put controls in place to ensure that all reports are submitted on time.

Management response

We are currently submitting documents to Treasury on or before 1st of every month but on supply chain, reports are required for submission by the 15th of every month, that why we have submitted on the 15th July instead of the 10th July 2008.

Name: Z.Cezu

Position: Chief Financial Officer

Date: 02 November 2009

PAYABLES/ACCRUALS

4. Payment authorisation

Audit finding

In terms of 62(1)(c)(i) of MFMA the accounting officer of the municipality is responsible for managing the financial administration of the municipality and must for this purpose take all reasonable steps to ensure that:

The municipality has and maintains effective and efficient and transparent system:

- of financial and risk management and internal control and
- of internal audit operating in accordance any prescribed norms and standard.

During the audit of payables it was noted that the following invoice and payment requisition form were not authorised by the municipal manager, chief financial officer or delegated official.

Ref	Supplier	Account number	Amount (excluding VAT)
1	GABHISA SPORTS PROMOTION	MC200260545	26,803.50

Root cause

Ongoing monitoring and supervision are not undertaken to enable an assessment of the effectiveness of internal control over financial reporting.

Risk

Controls over payment authorisation may be overridden, resulting in the municipality paying for goods or services not within the ordinary course of business.

Recommendation

Management should ensure that expenditure items exceeding R30 000 are authorised by the chief financial officer, municipal manager or the delegated officer per the delegation framework.

Management response

The requests from various departments have been authorized by delegated officials. Supporting documents will be provided for your perusal.

Name: Z. Cezu

Position: Chief Financial Officer

Date: 02 November 2009

Auditor's response

As per our review, the above documentation was not authorised as indicated above.

5. Inadequate reconciliation of the creditors sub-ledger to general ledger**Audit finding**

In terms of section 63(1)(b) of the MFMA the accounting officer of the municipality is responsible for the management of the liability of the municipality. However, it was noted that no reconciliations are performed between the creditors sub-ledger and general ledger.

Root cause

Internal control deficiencies are not identified and communicated in a timely manner to allow for corrective action to be taken.

Risk

- The creditors balance on the financial statements could be misstated.
- The absence of reconciliations compromises reliance on the completeness and accuracy of recorded creditors.
- Non-payment of accounts may not be detected within established time frames, resulting in the payment of avoidable interest and penalties.

Recommendation

The municipality should reconcile its sub-ledgers and ledger accounts on a monthly basis and these reconciliations must be reviewed by senior management and signed as proof of review.

Management response

I am in agreement with this finding. It should be noted that the reason for this was due to the fact that correcting journal entries have been captured to the creditors control account for year end purposes. These adjustments will need to be updated to the creditor's age analysis in the new financial year. It should be noted that creditor's reconciliations between the age analysis and creditors statements are performed on a monthly basis.

: Name Z Cezu:

Position: Chief Financial Officer

Date: 30 October 2009:

TAXES

6. Input VAT not deductible

Audit finding

In terms of section 16(2)(a) VAT Act no deduction of input tax in respect of the supply of any goods shall be made unless a tax invoice relating to that supply has been provided and it is held by the vendor making the deduction at the time that any return in respect of that supply is furnished. However, during the testing of value-added tax, it was noted that VAT was incorrectly raised on the several invoices. This includes the zero rated, the exempt supply and invoices from the non-VAT vendors.

Root cause

Ongoing monitoring and supervision are not undertaken to enable an assessment of the effectiveness of internal control over financial reporting.

Risk

- Non-compliance with the VAT Act
- Misstatement of VAT control account and expenditure

Recommendation

Management should review all the transactions processed on a regular basis to ensure that transactions are correctly processed on the system. In addition, management should review all the payments made during the year and ensure that VAT was correctly claimed on the invoices.

Management response

The problem is historical however we will adjust accordingly

Name Z Cezu:

Position: Chief Financial Officer

Date: 30 October 2009:

Auditor's response

The management made the necessary adjustment and it has been audited.

ANNEXURE C: ADMINISTRATIVE MATTERS**CASH AND CASH EQUIVALENTS****7. Long-outstanding reconciling items****Audit finding**

In terms of section 63(2) of the MFMA, the accounting officer is required to take all reasonable steps to ensure that the municipality has and maintains a management, accounting and information system that accounts for the assets and liabilities of the municipality. However, during the audit of bank and cash it was noted that there are long-outstanding reconciling items on the bank reconciliations.

Root cause

Internal control deficiencies are not identified and communicated in a timely manner to allow for corrective action to be taken.

Risk

Various accounts in the trial balance can be misstated as a result of long-outstanding items that require reversal.

Recommendation

The municipality should follow up on all the long-outstanding items. In addition, the municipality should put controls in place to ensure that all outstanding cheques are cleared within reasonable time.

Management response

During the financial year we experienced challenges in the system which resulted on information being retrieved by Munsoft later in the financial year. This has caused recurring unresolved reconciling items which were resolved and cleared towards the end of the financial year. Munsoft have since introduced bank reconciliation module that will resolve problems related to reconciliation

Name Z Cezu:

Position: Chief Financial Officer

Date: 30 October 2009: